

City of Renton Economic Forecast
2012 - 2016

Prepared for the
Department of Finance and Information Technology
City of Renton

by
Douglas H. Pedersen
Doug Pedersen & Associates

January 31, 2012

Introduction and Summary

This report updates the City of Renton Economic Forecast dated July 29, 2011. It relies on the January 2012 national economic forecast from *Blue Chip Economic Indicators*, and the December 2011 Puget Sound forecast from Conway Pedersen Economics, Inc., as published in *The Puget Sound Economic Forecaster*. The Renton forecast is prepared with the aid of a simple econometric model developed for the City.

With real GDP growth of 2.8 percent in the fourth quarter of last year, the U.S. economy has now expanded ten consecutive quarters. Recently, job growth appears to have picked up meaningfully. Yet the consensus view is cautionary, citing previous job spurts that have proved temporary, falling home prices, weak wage gains, and slowing global growth. The outcome is continued, but subpar, U.S. growth, at least through 2013.

The Puget Sound economy suffered a greater relative employment loss than the U.S. economy during the recession, but is now growing slightly faster. Including the indirect effects, expansion in Boeing payrolls over the last eighteen months accounts for about one-half the total gain of 21,000 jobs. Job growth in the 1½-2 percent range is expected.

Burgeoning 737 orders, higher production rates, and rising Boeing employment will lift the Renton economy over the forecast period. Employment and population growth rates are expected to beat comparable regional rates. Taxable retail sales growth will exceed 5 percent.

Comparative Growth Rates, 2012 – 2016

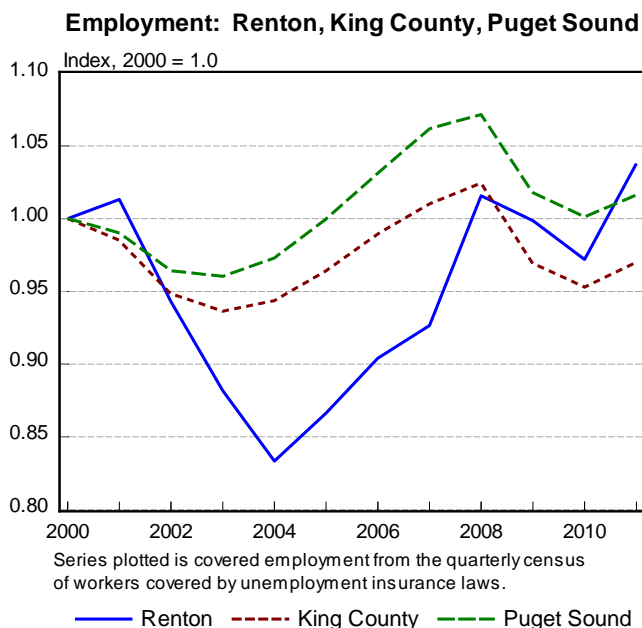
Average Annual Percent Change

	United States	Puget Sound	King County	Renton
Employment	1.5	1.8	1.8	2.0
Population	0.8	1.1	0.8	2.2 ¹

¹ Excludes effect of annexations

Outlook for the Renton Economy

As evident in the graph below, recessions early in the last decade and again late in the decade robbed the region and some of its sub-areas of virtually the entire net increase in jobs. Overall Puget Sound employment in 2010 was within 2,000 jobs (0.1 percent) of the level in 2000. This unenviable trend, however, has now started to reverse with Renton fully participating. Measured by employment (based on City business license records), the Renton economy outperformed the rest of the region in 2011. In addition to faster job creation, the increase in jobs lifted total employment 3.8 percent above the level in 2000, only the third time in the last eleven years that employment has climbed above the earlier benchmark.



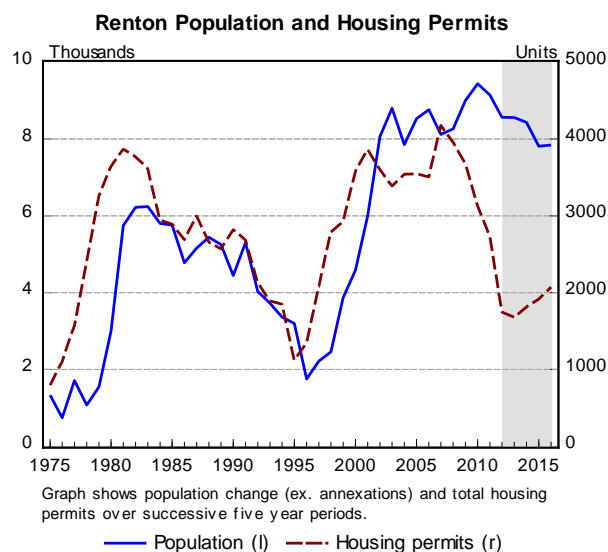
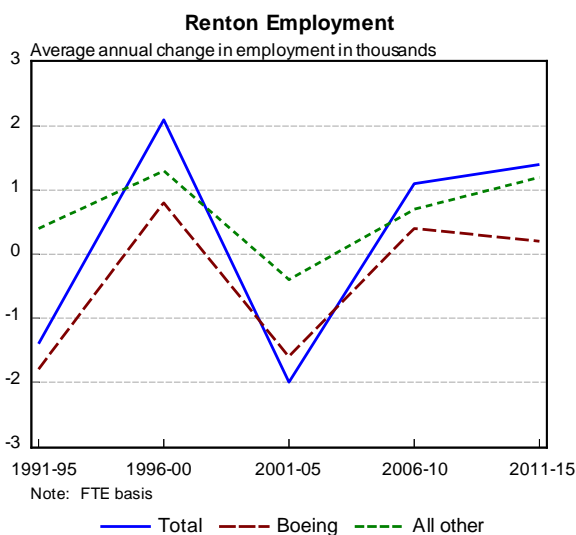
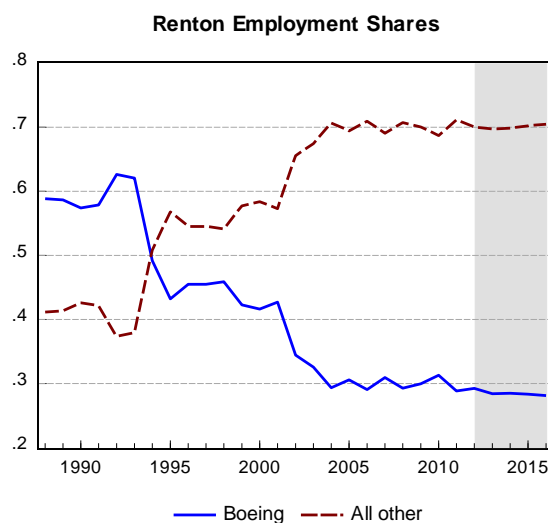
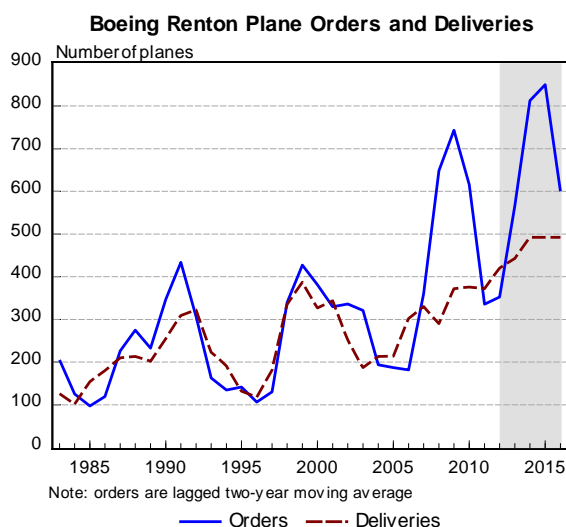
The Renton economy, like the U.S. and Puget Sound economies, is expected to post better results for the current decade, building on last year's growth. Both orders and deliveries for 737 airplanes are expected to soar, Boeing and non-Boeing employment is expected to rise, population and housing activity will climb, and taxable retail sales will advance.

Boeing Activity, Employment, Population, and Housing

At the end of 2011, the unfilled order backlog for Boeing 737 airplanes amounted to more than 2,300 planes according to company sources. Orders were much stronger than expected by Boeing last year and will remain robust over the near term as airlines queue up for the new 737 MAX. More than 1,000 737 MAX orders and commitments have been placed by 15 customers according to Boeing, and the company is very bullish about turning existing commitments into orders as well as securing new commitments. The first 737 MAX is expected to fly in 2016 with deliveries following in 2017. Long-run single-aisle airplane demand, according to Boeing's 2011 *Current Market Outlook*, amounts to 1,168 planes per year. If Boeing's share of the single-aisle market was 50 percent, annual demand would average 584 planes. Thus, over the near-term, orders look to be well above the long-run average.

The bulge in orders over the last two years, coupled with the expected increase in sales in the next two years, promise high production rates for an extended period (see graph below). Deliveries have been steady at about 375 planes in each of the last three years, just short of the record 387 planes produced in 1999. But, based on announced production rates for the 737, deliveries will climb even higher—from the current rate of 35 planes per month (up from 31.5 in 2010 and 2011), to 38 planes per month in the second quarter of 2013, and to 42 planes per month by the first half of 2014. This means

that annual deliveries will approach 500 planes beginning in 2014 (with even higher rates of production under consideration).



Boeing jobs in Renton will swell with the increase in output. Over the twelve months ending last December, aerospace payrolls in King, Pierce, and Snohomish counties expanded by 9,300 jobs, a hiring rate of 775 jobs per month. A simple forecasting model that takes into account the outlook for region-wide aerospace employment and expected plane deliveries from the Renton plant relative to total deliveries suggests that Boeing employment in Renton will climb by about 1,100 jobs (8.5 percent) in 2012 reaching just over 14,000. Additional gains, although much smaller, are expected through the end of the forecast period. By 2016, total Boeing employment in Renton is expected to hit

14,650. Given the expected growth in other non-Boeing jobs, the Boeing share of total employment is expected to remain steady at about 30 percent.

Non-Boeing employment in Renton rose by more than 1,500 jobs (5.1 percent) last year according to city business license records. In contrast to comparable King County figures, the pickup pushed non-Boeing employment in Renton above the pre-recession peak. However, over the long run, the non-Boeing jobs in Renton do closely track non-aerospace employment in King County. Accordingly, based on the recovery in King County non-aerospace jobs predicted by *The Puget Sound Economic Forecaster*, non-Boeing jobs in Renton are expected to increase 2.6 percent this year, 1.3 percent in 2013, and average 1.8 percent growth from 2014 to 2016.

Combining the forecasts for Boeing and non-Boeing jobs, total Renton employment is expected to rise 4.3 percent this year, slow to 1.7 percent in 2013, and average 1.4 percent growth annually from 2014 to 2016. As shown above, this sustained job growth in the first half of the decade will mark an end to the five-year cycle of alternating periods of contraction and expansion in Renton employment dating from the early 1990s.

Also shown above is Renton population and housing activity, which (not surprisingly) tend to move together over the long run. The graph plots population change and total housing permits over successive five year intervals. These series also move with their respective regional measures suggesting that growth in Renton population can be forecast from growth in regional population and Renton housing permits relative to regional housing permits, and similarly, that Renton housing permits are dependent on regional housing permits and population growth in Renton relative to the region. Using the latest regional forecast for population and housing permits, this approach yields a steady population growth rate in Renton of 2.2 percent (excluding annexations) throughout the forecast period along with a slow recovery in housing permits—from a low of 307 units last year to 330 units in 2012, 377 in 2013, and an average of 450 units per year from 2014 to 2016.

Taxable Retail Sales

After a severe, three-year retrenchment, regional taxable retail sales staged a welcome recovery last year. Based on three quarters of available data, total taxable retail sales in the four-county Puget Sound area rose 2.1 percent in 2011, with the retail trade category climbing 3.8 percent and other taxable sales rising 0.8 percent. At this point, there are only a handful of industries showing ongoing losses—most notably construction, and finance and insurance.

Total taxable retail sales in Renton in 2011, however, bucked the improving trend, slipping 0.8 percent. This is due entirely to continued steep decline in the construction sector (down 33.8 percent in the first three quarters compared to the year-earlier period), and in particular to a drop in heavy construction (off 85.7 percent). If taxable sales in the construction sector in Renton had matched the regional pace (-8.6 percent) last year, then total taxable sales would have climbed 2.7 percent, faster than the overall regional pace.

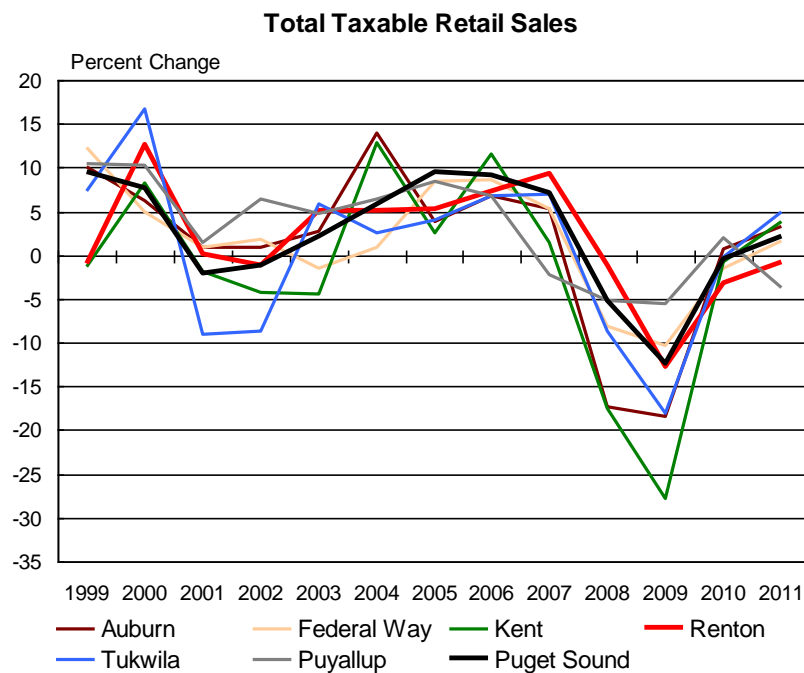
**Total Taxable Retail Sales
Puget Sound and Selected Cities**

Annual Percent Change

	2004	2005	2006	2007	2008	2009	2010	2011 ¹
Auburn	13.9	3.8	6.8	5.3	-17.4	-18.8	0.6	3.3
Bellevue	4.1	11.6	9.1	15.9	-6.0	-13.8	-3.8	1.7
Everett	3.1	11.2	16.1	6.4	-8.6	-15.5	2.6	0.1
Federal Way	0.9	8.4	8.6	5.2	-8.1	-10.8	-1.5	1.6
Kent	12.9	2.5	11.6	1.4	-17.6	-28.1	-0.8	3.8
Kirkland	6.9	15.7	10.1	1.2	-12.0	-14.1	2.7	3.0
Puyallup	6.3	8.4	6.7	-2.3	-5.2	-5.8	1.9	-3.7
Redmond	5.8	7.0	11.4	3.1	2.4	-5.8	-1.2	3.2
Renton	5.1	5.3	7.3	9.4	-1.2	-12.9	-3.1	-0.8
SeaTac	5.4	7.5	6.1	-3.2	-3.4	-7.0	1.3	3.1
Seattle	2.8	10.6	9.4	9.4	0.4	-11.7	-2.5	5.5
Tacoma	3.3	10.1	7.5	2.8	-8.1	-11.3	0.9	0.4
Tukwila	2.6	4.0	6.7	7.0	-8.7	-18.1	-0.3	5.0
Puget Sound ²	5.8	9.5	9.1	7.2	-5.2	-12.3	-0.5	2.1

¹ Three quarters of 2011 vs. three quarters of 2010

² King, Kitsap, Pierce, and Snohomish counties



The outlook for most of the key drivers of retail spending is expected to improve over the forecast period as shown below for the Puget Sound economy. Personal income is expected to rise 5.1 percent this year, but only 3.9 percent in 2013 as the payroll tax cut is

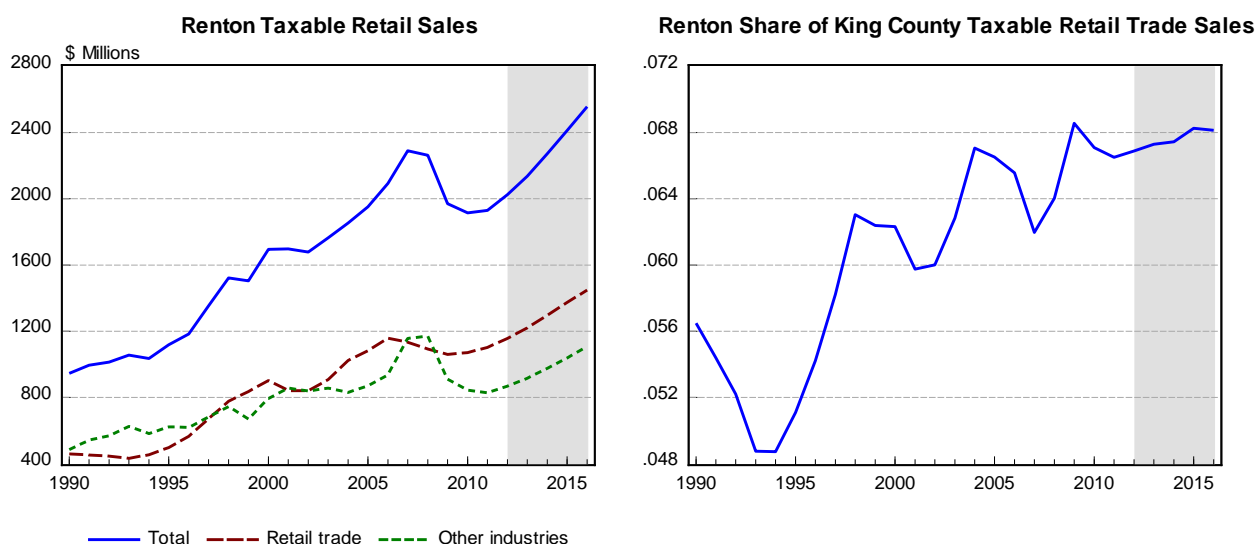
rescinded. Faster income growth between 2014 and 2016, a significant pickup in housing permits, and a drop in the unemployment rate will all support healthy growth in taxable retail sales. Higher interest rates, which primarily affect sales of durable goods, are the only negative.

Factors Affecting Puget Sound Taxable Retail Sales

Annual Averages

	2012-2013	2014-2016	Comment
Personal income growth (%)	4.5	5.4	increasing support
Housing permits (units)	13,700	19,200	stronger activity
Unemployment rate (%)	8.3	7.3	improving labor market
10-year Treasury note (%)	2.56	4.15	tighter credit

As discussed in prior reports, the approach to forecasting Renton taxable retail sales follows the strategy used with the other variables: regress the local variable on the comparable regional variable and include an additional term(s) to capture growth in the local economy relative to the regional economy.



For taxable retail trade sales, the forecasting model considers the outlook for Puget Sound retail trade sales, Renton housing activity, and growth in Renton population relative to Puget Sound population. The forecasting model for other taxable retail sales in Renton uses other Puget Sound taxable sales and Renton housing activity relative to King County housing activity as explanatory variables. These models call for gains in the 5.0-6.5 percent range for both categories of retail sales over the forecast period. The Renton share of King County taxable retail trade sales will climb slightly to 6.8 percent.

The risk to the retail sales forecast is on the downside—primarily from the same threats facing the U.S. economy: the possibility of a worsening Eurozone financial and

economic crisis, increased middle-East unrest, and policy mistakes by Congress. These could slow the pickup in hiring causing personal income growth to stall, or cause consumers to raise savings rates, both of which would slow retail spending. High consumer indebtedness, reduced credit availability to consumers, and continued slide in housing activity could also dampen spending.

**City of Renton
Baseline Economic Forecast
January 2012**

	----- Actual -----				----- Forecast -----				
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Boeing Renton Plant									
Orders (Planes)	474	197	508	625	950	700	----- 500/yr. -----		
Deliveries (Planes) ¹	290	372	376	372	420	443	492	492	492
Renton Employment ²									
Total	43,818	43,946	43,274	44,841	46,778	47,571	48,215	48,937	49,602
Percent Change	2.5	0.3	-1.5	3.6	4.3	1.7	1.4	1.5	1.4
Boeing ³	12,829	13,169	12,913	12,928	14,024	14,405	14,520	14,571	14,649
Percent Change	-3.0	2.7	-1.9	0.1	8.5	2.7	0.8	0.3	0.5
Other	30,989	30,777	30,361	31,913	32,754	33,165	33,695	34,367	34,953
Percent Change	5.0	-0.7	-1.4	5.1	2.6	1.3	1.6	2.0	1.7
Renton Population ⁴	82,384	87,668	90,927	92,590	94,616	96,674	98,785	101,006	103,302
Percent Change	29.2	6.4	3.7	1.8	2.2	2.2	2.2	2.2	2.3
Renton Building Permits ⁵									
Residential - New Construction									
Units Authorized	448	326	335	307	330	377	465	435	464
Value (\$ Mil.)	77.137	66.916	70.797	77.036	75.742	87.388	109.008	106.145	118.462
Average Value (\$ Thou.)	172.2	205.3	211.3	250.9	229.5	231.8	234.4	244.0	255.3
Renton Taxable Sales ⁶									
Retail Trade (\$ Mil.)	1,092.4	1,060.1	1,070.4	1,102.5	1,156.8	1,220.4	1,296.1	1,373.9	1,448.1
Other Industries (\$ Mil.)	<u>1,170.0</u>	<u>910.5</u>	<u>843.8</u>	<u>826.9</u>	<u>868.3</u>	<u>915.2</u>	<u>975.6</u>	<u>1,038.0</u>	<u>1,107.5</u>
Total (\$ Mil.)	2,262.4	1,970.6	1,914.2	1,929.4	2,025.1	2,135.6	2,271.7	2,411.9	2,555.6
Percent Change	-1.2	-12.9	-2.9	0.8	5.0	5.5	6.4	6.2	6.0

¹ 2008 deliveries affected by machinist strike in September and October

² FTE employees working in Renton based on City of Renton business license records

³ 2011 4th quarter actual reported at 13,551; 2008 Boeing employment estimated at 13,537 absent strike

⁴ Reflects inter-census revisions, 2000-2010; includes annexations of approx. 17,100 persons in 2008, 3,600 in 2009, 1,000 in 2010 and 16 in 2011

⁵ U.S. Census Department series; average value affected by mix of single family and multi-family permits

⁶ Washington Department of Revenue series